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TO RUEHC/SECSTATE WASHDC 6464  
INFO RUEHGB/AMEMBASSY BAGHDAD 0323  
RUEHBJ/AMEMBASSY BEIJING 4818  
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RUEHKSO/AMCONSUL SAPPORO 9891  
RUEHGH/AMCONSUL SHANGHAI 0456  
RUEHSH/AMCONSUL SHENYANG 0656  
RUCNDT/USMISSION USUN NEW YORK 1170  
RUEHIN/AIT TAIPEI 7105  
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RHEHAAA/NSC WASHDC  
RHMCUUU/DEPT OF ENERGY WASHINGTON DC  
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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 002188

SIPDIS

E.O. 12958: DECL: 08/07/2018  
TAGS: ENRG EPET PREL CH IR IZ JA  
SUBJECT: METI PESSIMISTIC ABOUT SHORT-TERM OIL OPERATIONS  
IN EAST CHINA SEA, IRAQ, IRAN

REF: A. A. TOKYO 1712  
1B. B. TOKYO 2161

Classified By: Ambassador J. Thomas Schieffer for Reasons 1.4 (b), (d)

¶1. (C) SUMMARY: There have been no new developments in the East China Sea dispute since China and Japan signed an MOU on joint development, according to METI Petroleum and Natural Gas Division Director Shin Hosaka. Negotiations may resume in October. Hosaka also described his recent meeting in Tehran with the President of the National Iranian Oil Company (NIOC), whom he described as "aggressive", and stated that, contrary to media reports, the Japanese firm INPEX is not considering increasing its investment in Iran. Finally, Hosaka described new METI Minister Nikai as focused by domestic political necessity on securing a near-term reduction in fuel prices. END SUMMARY.

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No New Developments in the East China Sea  
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¶2. (C) METI's Petroleum and Natural Gas Division Director Shin Hosaka offered an overview of several issues during econoff's introductory call August 7. Discussing the recent Japan-China East China Sea agreement, Hosaka echoed what has been reported (reflets) that nothing has developed since the two sides concluded an MOU in June to develop jointly the Shirakaba and Asunara gas fields. When asked about a recent Nikkei report that China wants to limit Japan's stake in development of the Shirakaba gas field to one-third to prevent a Japanese firm from exceeding the stakes of the China National Offshore Oil Corporation and the China Petroleum and Chemical Corporation, Hosaka stated the investment shares have yet to be decided and that he expects negotiations to begin in October following the Beijing Olympics.

¶3. (C) Hosaka also said Teikoku Oil Co., which currently holds drilling rights in the East China Sea bloc, has expressed interest in the project. However, if the private sector does not invest in the field, METI will direct investment through the GOJ's Japan Oil, Gas and Metals

National Corporation (JOGMEC). Hosaka added that the fact any joint-venture will be governed by Chinese law may be a sticking point with Japanese companies, but Japanese industry was generally happy with the MOU as an alternative to the status quo. In addition, Hosaka said he has heard rumors the Chinese Navy has been critical of the June MOU and wants the Government of China to pull back due to the sensitive boundary issue. Given his sense that the Chinese government has been unable to control opposition within China against joint development, he is "not very optimistic" about the upcoming procedural discussions.

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Cautiously Optimistic on Iraq  
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¶4. (C) Hosaka said he found the security situation in Iraq better than he expected during his recent visit to that country. Four Japanese firms, INPEX, JAPEX, ENEOS, and Mitsubishi, are prequalified to bid on the first tender for six oil fields and two gas fields, and Hosaka hopes Japanese firms will win bids on at least one or two of the fields. However, because the Government of Iraq is already negotiating with several international oil majors for technical service contracts on the six fields, rather than production sharing agreements, Hosaka fears the first round of open tenders will be difficult for the Japanese firms.

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Negative on Iran

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¶5. (C) Hosaka also recently visited Tehran, where he met with the President of the National Iran Oil Corporation. Hosaka described him as "nationalist", "aggressive", and "difficult to manage" and said the visit left him feeling "not optimistic" about Iran's oil industry. (Note: though not referred to by name, Hosaka was speaking of Seifollah Jashnsaz, who was appointed last Spring and formerly headed the National Iranian South Oil Company. End Note). When asked about a Reuters report quoting Iranian Oil Minister Gholamhossein Nozari as saying that INPEX plans to increase its investment stake in Iran's Azadegan oil field (which an INPEX spokesperson denied in the media), Hosaka too stated INPEX has no such intention. He explained the Minister's statement was merely an expression of hope, which European media then translated and reported as fact, prompting INPEX to issue the denial.

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Impressions of METI Minister  
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¶6. (C) Hosaka also offered his impressions of new METI Minister Toshihiro Nikai, whom he described as "very aggressive". Hosaka said that when Nikai previously served as Minister, he was not very interested in energy issues but focused on development of small and medium enterprises and the manufacturing and service industries. However, since returning to METI, Nikai has been very concerned about the hike in gasoline prices, which have had a negative impact on his constituents in rural Wakayama Prefecture. When METI's Agency of Natural Resources and Energy (ANRE) Director General Toru Ishida briefed Nikai and Minister of State for Economic and Fiscal Policy Kaoru Yosano in early August, Nikai asked for ideas on how to lower fuel prices. ANRE is looking at short-term emergency measures, but Hosaka acknowledged his department may not have much to offer, as its policy is targeted toward more mid- and long-term supply and price stability.

SCHIEFFER